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INFO RUEHXX/ARAB ISRAELI COLLECTIVE PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 002344

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NEA FOR FRONT OFFICE; NEA/IPA FOR
GOLDBERGER/SHAMPAINE/BELGRADE; NSC FOR ABRAMS/WATERS;
TREASURY FOR SZUBIN/GRANT/HARRIS/NUGENT/HIRSON; BRUSSELS
FOR LERNER

E.O. 12958: DECL: 11/08/17
TAGS: [ECON](#) [EFIN](#) [IS](#) [KWBG](#) [PTER](#) [KFTN](#)
SUBJECT: DENIAL OF DOLLARS TO GAZA BANKS HELPS HAMAS

REF: JERUSALEM 2210

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

11. (SBU) Summary: Cash shipments of NIS sufficient to cover October Palestinian Authority (PA) salaries entered the Gaza Strip November 6, but Israeli authorities continue to deny bank requests for USD and Jordanian dinar (JD) cash transfers, according to bank representatives. Bank officials assert that Hamas is benefiting from the USD shortage by selling its USD at a significantly higher unofficial USD/NIS exchange rate. The PA has requested that Israel allow immediate shipment of NIS, USD, and JD in order to provide banks with sufficient liquidity and also to narrow the official/unofficial exchange rate gap. End summary.

Cash Arrives

12. (SBU) According to bank and Palestine Monetary Authority (PMA) officials, Israeli authorities allowed NIS 55 million (USD 14 million) to enter Gaza on the afternoon of November 6, the same day October salary payments were transferred to the bank accounts of PA civil servants. Banks operating in Gaza had requested that NIS 120 million (USD 31 million) be delivered to cover salary withdrawals. All requests for USD and JD cash shipment were denied, as has been the case for several weeks.

13. (C) Bank of Palestine (BoP) and Cairo Amman Bank officials told Econoff November 6 that the NIS shipments received that day would just be sufficient to cover the salary payments. BoP General Manager Hani Shawa said that BoP's NIS cash reserves in Gaza will drop to NIS 10 million (USD 2.6 million) after salary payments are disbursed. BoP will increase the amount it withholds from salaries to cover employees' unpaid loans, leaving less to be paid out in cash. Shawa said that the liquidity crisis will ease as salaries are spent and merchants deposit their earnings. BoP is actively asking its business clients to make these deposits as soon as possible.

USD Strengthens on the Gaza Street

14. (SBU) Because of fears that they will have difficulty gaining access to their bank-held funds, Gazans are increasingly hoarding cash, with a strong preference for USD. The increased demand and limited supply of USD has caused the USD to appreciate against the NIS in Gaza, with the unofficial exchange rate over 3 percent higher for USD than

that offered by banks. (According to the PMA, on November 6, the exchange rate on the street was about USD 1 = NIS 4.08, while the banks offered USD 1 = NIS 3.95, according to the PMA.) Because they do not have the necessary USD on hand, banks are forced to pay USD-denominated UNRWA, UN, and NGO salaries in NIS. To placate their clients, banks are paying these salaries at or near the unofficial exchange rate, and taking the loss.

----- Hamas Appreciates USD Demand

15. (C) According to bank and PMA officials, Hamas is benefiting from the Gazan banks' lack of USD. Hamas appears to have an ample supply of USD on hand, and according to BoP's Shawa is "making a killing" by selling USD at the higher unofficial rate. Shawa said the GOI's most recent denial of USD cash shipments was "music to Hamas' ears." PMA Deputy Governor Jihad al-Wazir asserted to Econoff November 8 that "Israel's policy of limiting USD is generating revenue for Hamas." He said that uncertainty about access to bank-held funds, the hoarding of cash, and the recent termination of check clearing services by Israeli correspondent banks for Gaza branches (reftel) have increased the volume of financial transactions outside the banking system, and these transactions are not subject to bank procedures to combat money laundering and terrorism financing.

16. (C) Wazir stated that the PA has asked the Israelis to facilitate transfer of the remaining NIS 35 million of the NIS 100 million it reportedly approved for shipment November 6, and also allow USD 10 million and JD 10 million to enter Gaza. He said that the shipment of these funds, followed by

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a PMA public statement on the transfers, will immediately ease Gazan concerns about access to their money, reduce hoarding, and lower the street's USD/NIS exchange rate. Wazir expressed his hope that cash shipments will be allowed to resume on a regular basis, at least in amounts providing sufficient liquidity for banks in Gaza to operate normally.
WALLES